

VILLAGE OF BIRCH RUN
BIRCH RUN, MICHIGAN
REPORT ON
AUDITED FINANCIAL STATEMENTS
June 30, 2008

Taylor &
Morgan

Certified Public Accountants

VILLAGE OF BIRCH RUN

Birch Run, Michigan

Financial Statements

And

Auditor's Report

June 30, 2008

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TREASURER

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CLERK

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Standards 48-49



Certified Public Accountants

Independent Auditor's Report

September 22, 2008

Village Council
Village of Birch Run
Birch Run, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Birch Run as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

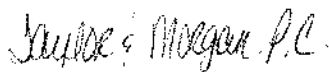
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Birch Run as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008, on our consideration of Village of Birch Run's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Birch Run's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Taylor & Morgan P.C.".

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Village of Birch Run, Michigan*, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here.

Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the 2007-2008 fiscal year by \$7,813,112 (*total net assets*). Of this amount, \$3,697,735 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$428,786 during the 2007-2008 fiscal year.
- As of the close of the 2007-2008 fiscal year, the Village's governmental funds reported combined ending fund balances of \$941,022, a decrease of \$46,497 in comparison with the prior year. Approximately 99 percent of this total amount, or \$931,147, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the 2007-2008 fiscal year, unreserved fund balance for the Village General Fund was \$605,845. This amount represents approximately 76 percent of total General Fund expenditures.
- The Village's total debt decreased by \$100,000 during the 2007-2008 fiscal year because of principal payments throughout the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include legislative, general government, elections, clerk and treasurer, public safety, inspections, planning and zoning, public works, and highways and streets. The business-type activities of the Village include sewer and water operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds, which are the General, Major Streets, and Local Streets. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets and Local Streets funds, each of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Business-Type Activities funds. The Village maintains one type of business-type activities fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses two individual enterprise funds, which are Sewer and Water, to account for its sewer and water operations.

Business-type activities funds provide the same type of information as the government-wide financial statements, only in more detail. The business-type activities fund financial statements provide separate information for the sewer and water operations, both of which are considered major funds of the Village.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Birch Run, total assets exceeded liabilities by \$7,813,112 at the close of the 2007-2008 fiscal year.

One of the largest portions of the Village's total net assets (approximately 35 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Birch Run's Net Assets						
	<u><i>Governmental Activities</i></u>		<u><i>Business-type Activities</i></u>		<u><i>Total</i></u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 990,969	\$ 1,041,483	\$ 4,130,004	\$ 3,704,293	\$ 5,120,973	\$ 4,745,776
Capital assets	213,873	228,980	2,953,332	3,009,144	3,167,205	3,238,124
Total assets	1,204,842	1,270,463	7,083,336	6,713,437	8,288,178	7,983,900
Long-term liabilities	-	-	305,000	405,000	305,000	405,000
Other liabilities	46,671	50,094	123,395	144,480	170,066	194,574
Total liabilities	46,671	50,094	428,395	549,480	475,066	599,574
Net assets:						
Invested in capital assets, net of related debt	213,873	228,980	2,548,332	2,504,144	2,762,205	2,733,124
Restricted	-	-	1,353,172	1,293,968	1,353,172	1,293,968
Unrestricted	944,298	991,389	2,753,437	2,365,845	3,697,735	3,357,234
Total net assets	\$1,158,171	\$1,220,369	\$6,654,941	\$6,163,957	\$7,813,112	\$7,384,326

An additional portion of the Village's total net assets (approximately 17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, which is *unrestricted net assets* (approximately 48 percent of the Village's total net assets), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Village's restricted net assets increased by \$59,204 during the current fiscal year. This increase mainly resulted from payments of debt service expenses and an increase in the restricted assets held on behalf of others.

The Village's net assets increased by \$428,786 during the current fiscal year. This growth largely reflects the degree to which ongoing revenues were exceeded by ongoing expenses.

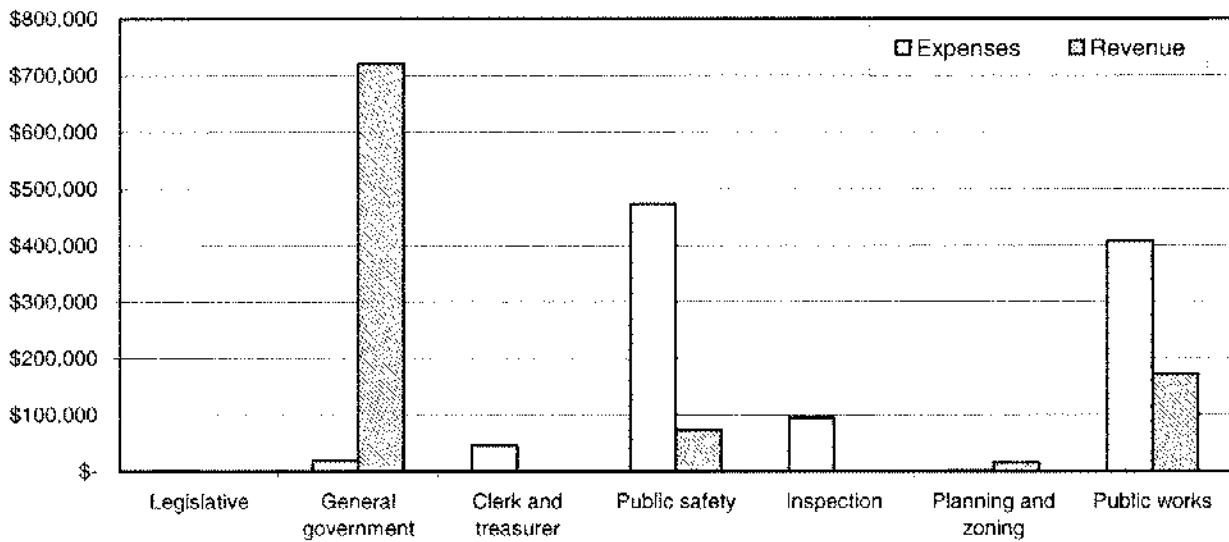
Village of Birch Run's Changes in Net Assets

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 286,200	\$ 501,737	\$ 897,460	\$ 831,063	\$ 1,183,660	\$ 1,332,800
Operating grants and contributions	125,569	137,671	51,859	49,507	177,428	187,178
General revenues:						
Property taxes	180,213	175,578	-	-	180,213	175,578
Grants and contributions not restricted to specific programs	117,629	113,909	-	-	117,629	113,909
Unrestricted Investment						
Earnings	41,282	48,777	164,520	166,980	205,802	215,757
Transfers	226,520	8,300	75,444	(8,300)	301,964	-
Other	4,297	8,399	2,137	10,155	6,434	18,554
Total revenues	981,710	994,371	1,191,420	1,049,405	2,173,130	2,043,776
Expenses:						
General government	162,878	156,524	-	-	162,878	156,524
Public safety	472,750	474,811	-	-	472,750	474,811
Public works	408,280	349,178	-	-	408,280	349,178
Sewer	-	-	340,087	365,394	340,087	365,394
Water	-	-	360,349	367,626	360,349	367,626
Total expenses	1,043,908	980,513	700,436	733,020	1,744,344	1,713,533
Increase (decrease) in net assets	(62,198)	13,858	490,984	316,385	428,786	330,243
Net assets, beginning	1,220,369	1,206,511	6,163,957	5,847,572	7,384,326	7,054,083
Total net assets	\$ 1,158,171	\$ 1,220,369	\$ 6,654,941	\$ 6,163,957	\$ 7,813,112	\$ 7,384,326

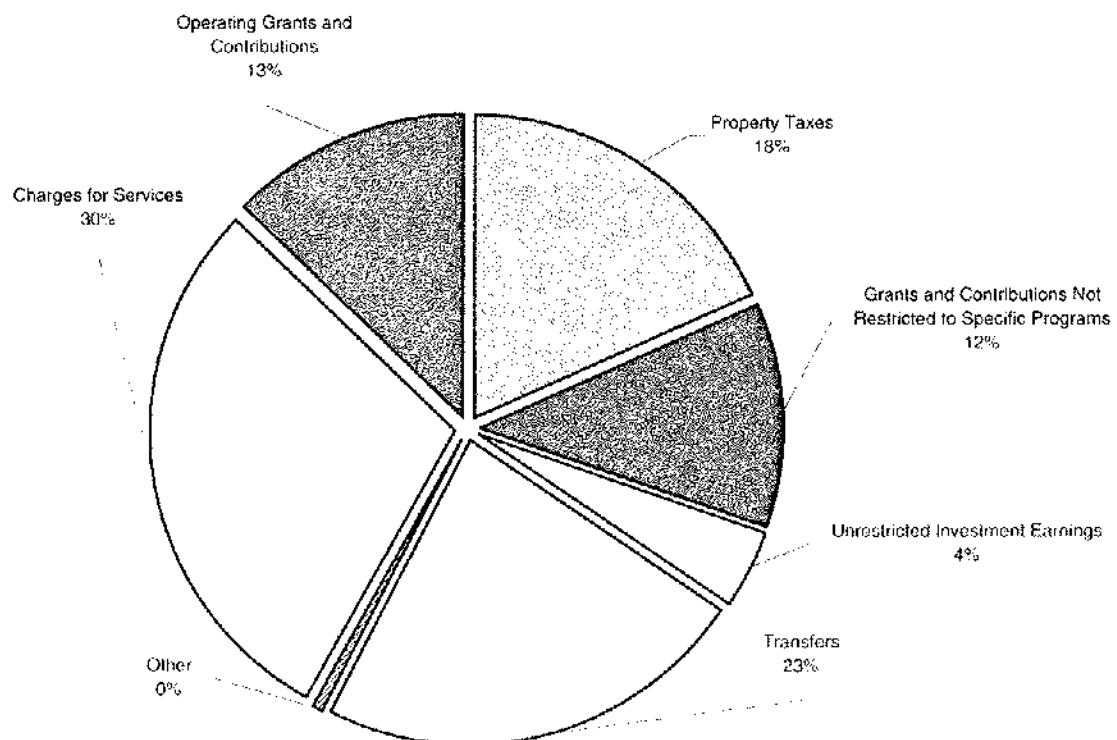
Governmental Activities. Governmental activities decreased the Village's net assets by \$62,198, and when combined with the growth in the business-type activities, results in an overall increase in the net assets of the Village. The key element of the change versus the prior year is as follows:

- Public Works expenses increased by \$59,102 (approximately 17 percent) during the year. This increase is related to the planned road maintenance activities in the 2007-2008 fiscal year.

Expenses and Program Revenues - Governmental Activities



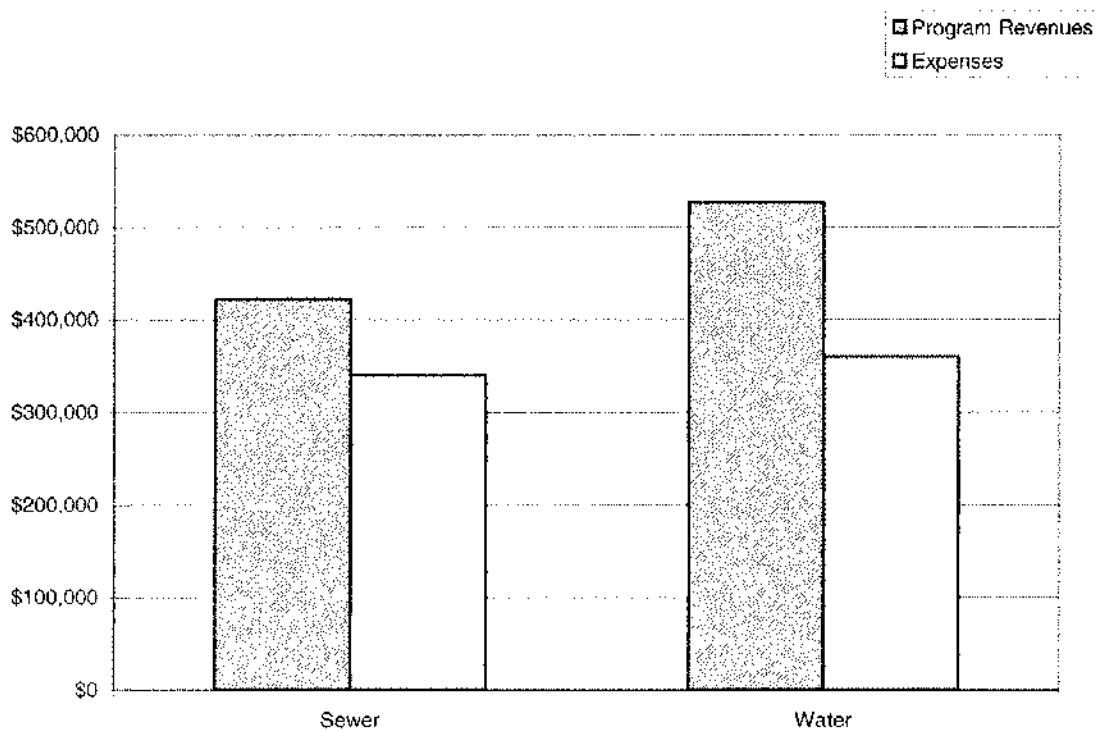
Revenues by Source - Governmental Activities



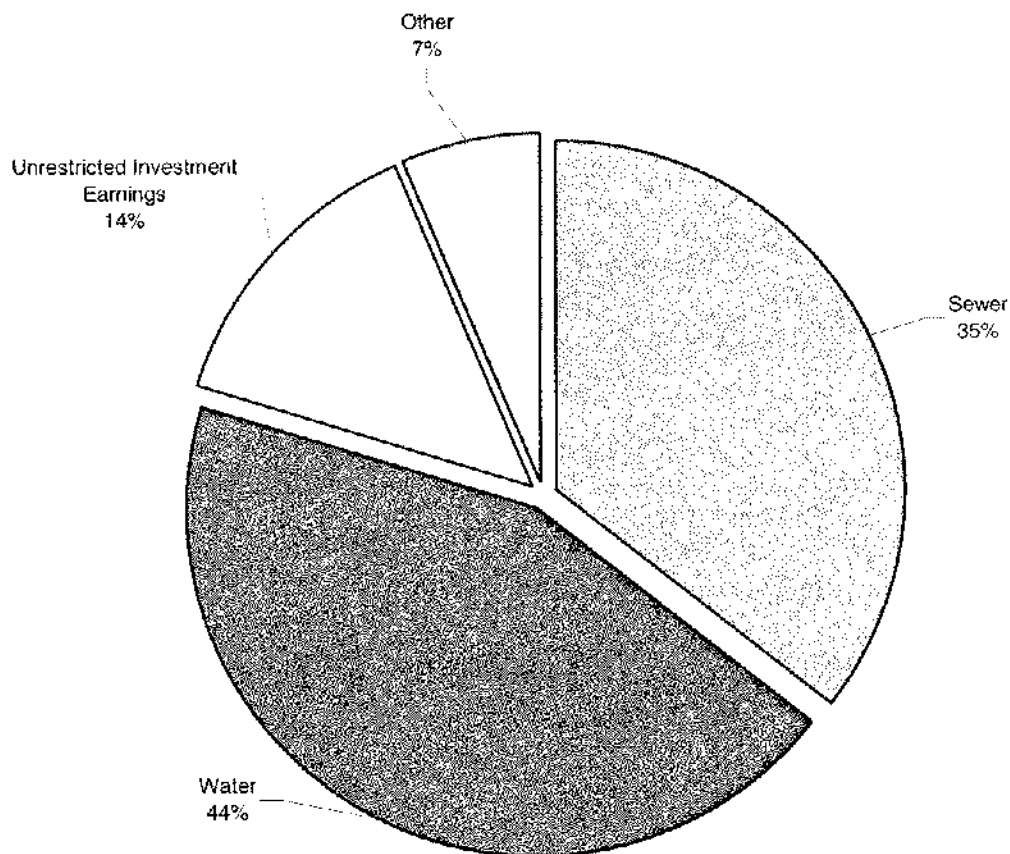
Business-type Activities. Business-type activities increased the Village's total net assets by \$490,984. Key elements of the change versus the prior year are as follows:

- Planned increases in revenue, primarily due to the rate structure as the Village accumulates funds to undertake both short and long term system upgrades and maintenance issues in the Water and Sewer systems.
- A decrease in expenses due to a lesser amount of emergency and/or planned maintenance occurrences compared to the prior year.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2007-2008 fiscal year, the Village's governmental funds reported combined ending fund balances of \$941,022, a decrease of \$46,497 in comparison with the prior year. Approximately 99 percent of this total amount (which equals \$931,147) constitutes *unreserved*

fund balance, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for a variety of other restricted purposes.

The General Fund is the chief operating fund of the Village. At the end of the 2007-2008 fiscal year, unreserved fund balance of the General Fund was \$605,845, while the total General Fund balance reached \$615,720. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. As calculated at the end of the 2007-2008 fiscal year, unreserved General Fund balance represents approximately 76 percent of total General Fund expenditures, while total General Fund balance represents approximately 77 percent of total General Fund expenditures.

The fund balance of the Village's General Fund increased by \$24,323 during the 2007-2008 fiscal year. This is primarily attributable to increases in tax revenue and increases in charges for services.

The Major Streets Fund has a total fund balance of \$226,347, which decreased by \$29,104 during the 2007-2008 fiscal year. This decrease was the result of an increase in the planned expenses for major street seal coating and major street repairs.

The Local Streets Fund has a total fund balance of \$98,955, which decreased by \$41,716 during the 2007-2008 fiscal year. This decrease is attributable to an increase in the planned expenses for local street seal coating and local street repairs.

Business-Type Activities funds. The Village's business-type activities funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer and Water Funds at the end of the year amounted to \$1,465,846 and \$1,287,591, respectively. The Sewer Fund had an increase in net assets for the year of \$259,373 and the Water Fund had an increase in net assets for the year of \$231,611. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor and the adjustments were made as a part of the Village's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the Village's General Fund were generally favorable, although three account categories were identified in "Note 2" as being over budget. In the Clerk/Treasurer account category, corrections to prior accounting entries in the Miscellaneous account were not comprehended at the time of the budget amendment. In the Public Works Department account category, the budget amendment to fuel expense was too restrictive and did not comprehend the June 2008 bills. In the Refuse Expenditure account category, the budget amendment was too restrictive and did not comprehend the June 2008 billing.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$3,167,205 (net of depreciation). This investment in capital assets includes land, buildings, vehicles, system improvements, machinery and equipment. The total decrease in the Village's investment in capital assets for the current fiscal year was approximately 1.7 percent. This figure consists of approximately a 6.6 percent decrease for governmental activities and approximately a 1.9 percent decrease for business-type activities.

Major capital asset events during the 2007-2008 fiscal year included the following:

- Purchase of a new Chevrolet Tahoe Police Vehicle
- Purchase of a new computer data protection unit (DPU)
- Purchase a new Sterling Dump Truck

Village of Birch Run's Capital Assets (net of depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 38,000	\$ 38,000	\$ 36,392	\$ 36,392	\$ 74,392	\$ 74,392
Land improvements	96,328	114,672	21,562	25,756	117,891	140,428
Buildings	14,783	15,213	102,098	105,248	116,881	120,461
Sewer System	-	-	2,188,771	2,261,857	2,188,771	2,261,857
Trucks & Heavy Equip	2,959	7,672	9,467	10,354	14,425	18,026
Police Equip	57,788	49,329	-	-	57,592	49,329
Water Mains	-	-	408,156	427,602	408,156	427,602
Mach & Equip	-	1,986	186,886	141,935	187,786	143,921
Office Equip & Furn	4,015	2,108	-	-	1,311	2,108
Total net assets	<u>\$ 213,873</u>	<u>\$ 228,980</u>	<u>\$ 2,953,332</u>	<u>\$ 3,009,144</u>	<u>\$ 3,167,205</u>	<u>\$ 3,238,124</u>

Long-term debt. At the end of the 2007-2008 fiscal year, the Village had total debt outstanding of \$405,000, which represents contracts payable to Saginaw County D.P.W.

Village of Birch Run's Outstanding Debt
Contracts Payable

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Contracts payable	\$ _____	\$ _____	\$ 405,000	\$ 505,000	\$ 405,000	\$ 505,000

The Village's total debt decreased by \$100,000 (approximately 20 percent) during the 2007-2008 fiscal year, with the principal payments being the primary change during the year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the Village is \$7,981,190, which is significantly in excess of the Village's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2008-2009 fiscal year:

- The September 2007 unemployment rate for the Saginaw County area (the Village is in Saginaw County) was 6.9 percent, which is the same as the September 2006 unemployment rate of 6.9 percent a year ago. This was lower than the State of Michigan's September 2007 unemployment rate of 7.5 percent, but higher than the United States September 2007 unemployment rate of 4.6 percent.
- Modifications in the Village's Sewer rates were adopted to incorporate equipment replacement and capital improvement programs planned over the next ten years.
- Interest rates on bank deposits were estimated at 50% of the prior year's return.
- The Village is comprised principally of residential areas. There is a stable business base that includes some light industrial operation. Growth has been limited due to the current economic conditions of the State of Michigan.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Clerk's office, 12060 Heath Street, P.O. Box 371, Birch Run, Michigan 48415.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF BIRCH RUN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash, cash equivalents and investments	\$ 923,161	\$ 2,551,775	\$ 3,474,936	\$ 499,572
Receivables	30,238	225,057	255,295	20,543
Due from other governmental units	37,570	-	37,570	-
Restricted cash and cash equivalents	-	1,353,172	1,353,172	-
Non-depreciable capital assets	38,000	-	38,000	89,043
Depreciable capital assets - net	175,873	2,953,332	3,129,205	535,625
Total assets	1,204,842	7,083,336	8,288,178	1,144,783
Liabilities				
Accounts payable and accrued expenses	46,671	23,395	70,066	16,785
Non-current liabilities:				
Due within one year	-	100,000	100,000	122,414
Due in more than one year	-	305,000	305,000	1,732,428
Total liabilities	46,671	428,395	475,066	1,871,627
Net Assets				
Invested in capital assets, net of related debt	213,873	2,548,332	2,762,205	(1,242,746)
Restricted for:				
Acquisition/construction/replacement of capital assets	-	1,353,172	1,353,172	-
Unrestricted	944,298	2,753,437	3,697,735	515,902
Total net assets	\$ 1,158,171	\$ 6,654,941	\$ 7,813,112	\$ (726,844)

**VILLAGE OF BIRCH RUN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals	Component Unit
Functions/Programs							
Primary government							
Governmental activities:							
Legislative	\$ 1,959	\$ -	\$ -	\$ (1,959)	\$ -	\$ (1,959)	\$ -
General government	18,976	151,783	-	132,807	-	132,807	-
Clerk and treasurer	46,056	-	-	(46,056)	-	(46,056)	-
Public safety	472,750	71,059	1,400	(400,291)	-	(400,291)	-
Inspection and zoning	94,287	400	-	(93,887)	-	(93,887)	-
Planning and zoning	1,600	15,487	-	13,887	-	13,887	-
Public works	408,280	47,471	124,169	(236,640)	-	(236,640)	-
Total governmental activities	1,043,908	286,200	125,569	(632,139)	-	(632,139)	-
Business-type activities:							
Sewer	340,087	389,431	33,135	-	82,479	82,479	-
Water	360,349	508,029	18,724	-	166,404	166,404	-
Total business-type activities	700,436	897,460	51,859	-	248,883	248,883	-
Total primary government	\$ 1,744,344	\$ 1,183,660	\$ 177,428	(632,139)	248,883	(383,256)	-
Component unit:							
Downtown development authority	\$ 737,514	\$ -	\$ -				(737,514)
General revenues							
Property taxes				180,213	-	180,213	773,993
Grants and contributions not restricted to specific programs				117,629	-	117,629	-
Unrestricted investment earnings				41,282	164,520	205,802	30,593
Other revenues				4,297	2,137	6,434	25,936
Transfers				226,520	75,444	301,964	(301,964)
Total general revenues				569,941	242,101	812,042	528,558
Change in net assets				(62,196)	490,984	428,788	(208,956)
Net assets (deficit), beginning of year, restated				1,220,369	6,163,957	7,384,326	(517,888)
Net assets (deficit), end of year				\$ 1,158,171	\$ 6,654,941	\$ 7,813,112	\$ (726,844)

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

**VILLAGE OF BIRCH RUN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Assets				
Cash, cash equivalents and investments	\$ 615,434	\$ 211,963	\$ 95,764	\$ 923,161
Due from State	37,570	-	-	37,570
Accounts receivable	5,317	15,040	3,946	24,303
Taxes receivable-delinquent	3,276	-	-	3,276
Interest receivable	<u>2,302</u>	<u>337</u>	<u>20</u>	<u>2,659</u>
Total assets	<u>\$ 663,899</u>	<u>\$ 227,340</u>	<u>\$ 99,730</u>	<u>\$ 990,969</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 15,364	\$ -	\$ -	\$ 15,364
Payroll withholdings	1,532	-	-	1,532
Accrued payroll	12,125	993	775	13,893
Deferred revenue	3,276	-	-	3,276
Customer deposits	<u>15,882</u>	<u>-</u>	<u>-</u>	<u>15,882</u>
Total liabilities	48,179	993	775	49,947
Fund balances				
Reserved for drug forfeiture funds	9,182	-	-	9,182
Reserved for D.A.R.E.	352	-	-	352
Reserved for salvage inspections	291	-	-	291
Reserved for community awards	50	-	-	50
Reserved for code enforcement	-	-	-	-
Unreserved:				
Reported in:				
General Fund	605,845	-	-	605,845
Special Revenue Funds	<u>-</u>	<u>226,347</u>	<u>98,955</u>	<u>325,302</u>
Total fund balances	<u>615,720</u>	<u>226,347</u>	<u>98,955</u>	<u>941,022</u>
Total liabilities and fund balances	<u>\$ 663,899</u>	<u>\$ 227,340</u>	<u>\$ 99,730</u>	<u>\$ 990,969</u>

**VILLAGE OF BIRCH RUN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008**

Total Governmental Fund Balances		\$ 941,022
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of net assets	\$ 981,570	
Accumulated depreciation	<u>(767,697)</u>	213,873
Deferred revenue for personal property tax receivables are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of activities.		
		<u>3,276</u>
Total net assets - governmental activities		\$ <u>1,158,171</u>

VILLAGE OF BIRCH RUN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 180,807	\$ -	\$ -	\$ 180,807
Licenses and permits	67,268	-	-	67,268
State revenue	117,629	97,826	24,083	239,538
Fines and forfeitures	74,719	-	-	74,719
Charges for services	147,873	-	-	147,873
Other revenue	<u>26,109</u>	<u>15,225</u>	<u>4,245</u>	<u>45,579</u>
Total revenues	614,405	113,051	28,328	755,784
Expenditures				
Governing body	1,959	-	-	1,959
Village clerk/treasurer	46,056	-	-	46,056
Public safety	481,013	-	-	481,013
Zoning department	14,012	-	-	14,012
Building inspector	80,275	-	-	80,275
Planning commission	1,600	-	-	1,600
Department of public works	104,503	-	-	104,503
Highways and streets	25,029	135,539	97,719	258,287
Refuse	<u>41,096</u>	<u>-</u>	<u>-</u>	<u>41,096</u>
Total expenditures	795,543	135,539	97,719	1,028,801
Excess (deficiency) of revenues over (under) expenditures	(181,138)	(22,488)	(69,391)	(273,017)
Other financing sources (uses)				
Operating transfers in (out)	<u>205,461</u>	<u>(6,616)</u>	<u>27,675</u>	<u>226,520</u>
Total other financing sources (uses)	205,461	(6,616)	27,675	226,520
Net change in fund balances	24,323	(29,104)	(41,716)	(46,497)
Fund balance - beginning of year	<u>591,397</u>	<u>255,451</u>	<u>140,671</u>	<u>987,519</u>
Fund balance - end of year	\$ <u>615,720</u>	\$ <u>226,347</u>	\$ <u>98,955</u>	\$ <u>941,022</u>

The notes to the financial statements
are an integral part of this statement.

VILLAGE OF BIRCH RUN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Total net change in fund balances - governmental funds	\$	(46,497)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	\$	28,258	
Depreciation Expense		<u>(43,365)</u>	(15,107)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount represents the change in delinquent personal property taxes receivable.

(594)

Change in net assets of governmental activities	\$	<u>(62,198)</u>
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**VILLAGE OF BIRCH RUN
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES
JUNE 30, 2008**

	SEWER FUND	WATER FUND	TOTAL
Current assets			
Cash, cash equivalents and investments	\$ 1,393,934	\$ 1,157,841	\$ 2,551,775
Accounts receivable	70,364	143,949	214,313
Interest receivable	8,227	2,517	10,744
Restricted current assets			
Cash and cash equivalents	-	566,210	566,210
Replacement	786,962	-	786,962
Sewer connection fees			
Total current assets	2,259,487	1,870,517	4,130,004
Noncurrent assets			
Property and equipment - net	2,509,757	443,575	2,953,332
Total assets	4,769,244	2,314,092	7,083,336
Current liabilities (payable from current assets)			
Accounts payable	676	14,334	15,010
Accrued expenses	1,953	2,382	4,335
Accrued interest	4,050	-	4,050
Current maturities of contracts payable-Saginaw County D.P.W.	100,000	-	100,000
Total current liabilities (payable from current assets)	106,679	16,716	123,395
Current liabilities (payable from restricted assets)			
Due to other governmental units	-	-	-
Total current liabilities	106,679	16,716	123,395
Long-term liabilities (exclusive of current maturities)			
Contracts payable-Saginaw County D.P.W.	305,000	-	305,000
Total liabilities	411,679	16,716	428,395
Net assets			
Invested in capital assets, net of related debt	2,104,757	443,575	2,548,332
Restricted for acquisition/construction of capital assets	786,962	566,210	1,353,172
Unrestricted net assets	1,465,846	1,287,591	2,753,437
Total net assets	\$ 4,357,565	\$ 2,297,376	\$ 6,654,941

VILLAGE OF BIRCH RUN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>SEWER FUND</u>	<u>WATER FUND</u>	<u>TOTAL</u>
Operating revenues			
Charges for services	\$ 369,142	\$ 502,391	\$ 871,533
Miscellaneous	<u>1,003</u>	<u>1,134</u>	<u>2,137</u>
Total operating revenues	370,145	503,525	873,670
Operating expenses			
Salaries and wages	69,100	80,452	149,552
Payroll taxes and fringe benefits	10,589	13,034	23,623
Sewage treatment	50,845	-	50,845
Operating supplies	2,582	22,202	24,784
Utilities	10,495	4,561	15,056
Dues and subscriptions	491	596	1,087
Professional fees	34,372	28,107	62,479
Office expenses	1,333	1,336	2,669
Printing and publishing	250	164	414
Equipment rental	20,230	12,523	32,753
Repairs and maintenance	2,496	522	3,018
Travel and training	165	267	432
Depreciation	112,969	25,121	138,090
Water purchases	-	161,576	161,576
Insurance	6,967	5,946	12,913
Capital outlay	3,607	2,876	6,483
Bad debt expense	<u>-</u>	<u>1,066</u>	<u>1,066</u>
Total operating expenses	<u>326,491</u>	<u>360,349</u>	<u>686,840</u>
Operating income/(loss)	43,654	143,176	186,830
Non-operating revenues/(expenses)			
Connection/rental fees	15,578	5,638	21,216
Interest income	96,247	68,273	164,520
Reimbursements	4,711	18,724	23,435
Bond interest and fiscal charges	(13,596)	-	(13,596)
Contribution from Township for debt service	<u>33,135</u>	<u>-</u>	<u>33,135</u>
Total non-operating revenues/(expenses)	<u>136,075</u>	<u>92,635</u>	<u>228,710</u>
Income/(loss) before transfers	179,729	235,811	415,540
Transfers			
Transfers (out)	<u>79,644</u>	<u>(4,200)</u>	<u>75,444</u>
Net income/(loss)	259,373	231,611	490,984
Net assets - beginning of year	<u>4,098,192</u>	<u>2,065,765</u>	<u>6,163,957</u>
Net assets - end of year	\$ <u><u>4,357,565</u></u>	\$ <u><u>2,297,376</u></u>	\$ <u><u>6,654,941</u></u>

**VILLAGE OF BIRCH RUN
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>SEWER FUND</u>	<u>WATER FUND</u>	<u>TOTAL</u>
Cash flows from operating activities			
Receipts from customers	\$ 341,810	\$ 497,644	\$ 839,454
Payments to employees	(88,694)	(79,802)	(148,496)
Payments to suppliers	(152,300)	(265,756)	(418,056)
Other operating revenue	<u>1,003</u>	<u>1,134</u>	<u>2,137</u>
Net cash provided (used) by operating activities	<u>121,819</u>	<u>153,220</u>	<u>275,039</u>
Cash flows from non-capital financing activities			
Transfers in (out)	<u>79,644</u>	<u>(4,200)</u>	<u>75,444</u>
Cash flows from capital and related financing activities			
Connection fees	15,578	5,638	21,216
Acquisition of capital assets	(80,653)	(1,625)	(82,278)
Principal payments on long-term debt	(100,000)	-	(100,000)
Bond interest and fiscal charges	(16,879)	-	(16,879)
Reimbursements	4,711	18,724	23,435
Contribution from Township for debt service	<u>33,135</u>	<u>-</u>	<u>33,135</u>
Net cash provided (used) by capital and related financing activities	(144,108)	22,737	(121,371)
Cash flows from investing activities			
Interest earned on investments	<u>88,020</u>	<u>65,756</u>	<u>153,776</u>
Net cash provided (used) by investing activities	<u>88,020</u>	<u>65,756</u>	<u>153,776</u>
Net increase (decrease) in cash and cash equivalents	145,375	237,513	382,888
Cash and cash equivalents - beginning of year	<u>2,035,521</u>	<u>1,486,538</u>	<u>3,522,059</u>
Cash and cash equivalents - end of year	\$ <u><u>2,180,896</u></u>	\$ <u><u>1,724,051</u></u>	\$ <u><u>3,904,947</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income	\$ 43,654	\$ 143,176	\$ 186,830
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	112,969	25,121	138,090
Decrease (increase) in assets:			
Accounts receivable	(27,332)	(4,747)	(32,079)
Increase (decrease) in liabilities:			
Accounts payable	(7,878)	(10,980)	(18,858)
Accrued expenses	<u>406</u>	<u>650</u>	<u>1,056</u>
Net cash provided by operating activities	\$ <u><u>121,819</u></u>	\$ <u><u>153,220</u></u>	\$ <u><u>275,039</u></u>

**VILLAGE OF BIRCH RUN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>1,777</u>
Liabilities	
Due to D.A.R.E.	\$ <u>1,777</u>

NOTES TO FINANCIAL STATEMENTS

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Birch Run (the "Village") was organized in 1955 as a home rule village and covers an area of approximately one square mile. The Village operates under an elected Village Council of five members and provides services to approximately 1,660 residents in many areas including law enforcement, community enrichment and development, and human services.

The accounting policies of the Village conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village (the primary government) and the Downtown Development Authority (the component unit). The Downtown Development Authority (DDA) is included in the Village's reporting entity because of the significance of its operational and financial relationship with the Village.

Component Unit - In conformity with accounting principles generally accepted in the United States of America, the financial statements of the DDA have been included in the financial reporting entity as a discretely presented component unit. The DDA is reported in a separate column to emphasize that it is legally separate from the Village. The members of the DDA are appointed by the Village President and the DDA is fiscally dependant on the Village as the DDA is prohibited from levying taxes and issuing bonded debt without the approval of the Village Council.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the grant revenues and the related operation and maintenance of the major street system.
- The Local Streets Fund accounts for the grant revenues and the related operation and maintenance of the local street system.

The Village reports the following major proprietary funds:

- The Sewer Fund accounts for the activities of the Village's sewage disposal and treatment system.
- The Water Fund accounts for the activities of the Village's water distribution and treatment system.

Additionally, the Village reports the following:

Agency Funds – The Agency Funds are used to account for assets held for other governments in an agency capacity, including tax collections. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Property taxes are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the sewer and water enterprise funds relates to charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap in fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property tax revenue

Village properties are assessed as of December 31 and the related property taxes become a lien in May of the following year.

Real property taxes not collected as of September 30 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

The 2007 taxable valuation of the Village was 38,552,717, on which the ad valorem tax levy consisted of 4.57 mills for operating purposes.

Assets, liabilities and net assets or equity

Cash and cash equivalents – For purposes of the statement of cash flows, the Village has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. As of June 30, 2008, the Village did not have any deposits qualifying as investments.

Receivables - All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives.

Land improvements	50 years
Buildings and building improvements	50 years
System infrastructure	5 to 30 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Long-term obligations - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund transactions - During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The office staff submits to the Village Council, at their April meeting, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution at the May Village Council meeting.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
5. Budgets for the General Fund and Major and Local Streets Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budget for the Downtown Development Authority Component Unit was adopted on a cash flow basis of accounting.
6. Budgeted amounts are originally adopted or as amended by the Village Council.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Excess of expenditures over appropriations in budgeted funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Village's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

During the year, the Village incurred expenditures in the following funds which were in excess of the amounts appropriated in various activities as follows:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund-Clerk/Treasurer	\$ 44,422	\$ 46,056	\$ (1,634)
General Fund-Department of Public Works	\$ 103,040	\$ 104,503	\$ (1,463)
General Fund-Refuse Expenditures	\$ 36,970	\$ 41,096	\$ (4,126)

NOTE 3 – DEPOSITS AND INVESTMENTS

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Village's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, defined as 5% or more of the Village's total investments. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Village's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Village's deposits may not be returned or the Village will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2008, the Village had \$4,730,475 of its deposit balances uninsured and uncollateralized.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Village through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Village is not authorized to invest in investments that would be subject to this type of risk.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

The Village maintains a cash pool that is available for use by essentially all Village funds. The portion of this pool attributable to each separate fund is shown on the statement of net assets as "Cash and cash equivalents". In addition, various interest bearing savings and checking accounts, certificates of deposits and investments are separately held by several of the Village's funds.

The Village is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of the United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered by the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The investment policy adopted by the Board authorized all of the investments allowable under Michigan law and is in accordance with statutory authority.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS

Capital assets for the year ended June 30, 2008 were as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated-Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Land improvements	230,379	-	-	230,379
Buildings	296,188	-	-	296,188
Trucks and heavy equipment	167,156	-	-	167,156
Police equipment	212,756	26,634	76,966	162,424
Machinery and equipment	73,575	-	38,000	35,575
Office equipment, furniture and fixtures	50,224	1,624	-	51,848
Total capital assets being depreciated	<u>1,030,278</u>	<u>28,258</u>	<u>114,966</u>	<u>943,570</u>
Less accumulated depreciation:				
Land improvements	(115,708)	(18,343)	-	(134,051)
Buildings	(280,975)	(430)	-	(281,405)
Trucks and heavy equipment	(161,483)	(2,714)	-	(164,197)
Police equipment	(163,231)	(18,371)	76,966	(104,636)
Machinery and equipment	(72,489)	(1,086)	38,000	(35,575)
Office equipment, furniture and fixtures	(45,412)	(2,421)	-	(47,833)
Total accumulated depreciation	<u>(839,298)</u>	<u>(43,365)</u>	<u>114,966</u>	<u>(767,697)</u>
Total capital assets being depreciated, net	<u>190,980</u>	<u>(15,107)</u>	<u>-</u>	<u>175,873</u>
Governmental activities capital assets, net of depreciation	<u>\$ 228,980</u>	<u>\$ (15,107)</u>	<u>\$ -</u>	<u>\$213,873</u>

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land	<u>\$ 36,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,392</u>
Capital assets being depreciated:				
Land improvements	53,690	-	-	53,690
Buildings	121,330	-	-	121,330
Sewer system	3,662,345	-	-	3,662,345
Vehicles	65,180	-	-	65,180
Mains	747,962	-	-	747,962
Furniture and equipment	<u>273,582</u>	<u>82,278</u>	<u>-</u>	<u>355,860</u>
Total capital assets being depreciated	<u>4,924,089</u>	<u>82,278</u>	<u>-</u>	<u>5,006,367</u>
Less accumulated depreciation:				
Land improvements	(27,934)	(4,194)	-	(32,128)
Buildings	(16,082)	(3,150)	-	(19,232)
Sewer system	(1,400,488)	(73,086)	-	(1,473,574)
Vehicles	(54,826)	(887)	-	(55,713)
Mains	(320,360)	(19,446)	-	(339,806)
Furniture and equipment	<u>(131,647)</u>	<u>(37,327)</u>	<u>-</u>	<u>(168,974)</u>
Total accumulated depreciation	<u>(1,951,337)</u>	<u>(138,090)</u>	<u>-</u>	<u>(2,089,427)</u>
Total capital assets being depreciated, net of depreciation	<u>2,972,752</u>	<u>(55,812)</u>	<u>-</u>	<u>2,916,940</u>
Business-type activities capital assets, net of depreciation	<u>\$ 3,009,144</u>	<u>\$(55,812)</u>	<u>\$ -</u>	<u>\$2,953,332</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 20,600
Public safety	18,371
Public works	<u>4,394</u>
Total depreciation expense-governmental activities	<u>\$ 43,365</u>
Business-type activities:	
Sewer	\$ 112,969
Water	<u>25,121</u>
Total depreciation expense-business-type activities	<u>\$ 138,090</u>

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Component unit-DDA

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 89,043	\$ -	\$ -	\$ 89,043
Construction in progress	<u>119,695</u>	<u>-</u>	<u>119,695</u>	<u>-</u>
Total capital assets not being depreciated	<u>208,738</u>	<u>-</u>	<u>119,695</u>	<u>89,043</u>
Capital assets being depreciated:				
Land improvements	379,738	-	7,600	372,138
Buildings	9,754	-	-	9,754
Vehicles	40,892	-	40,892	-
Equipment	<u>262,827</u>	<u>189,626</u>	<u>97,000</u>	<u>355,453</u>
Total capital assets being depreciated	<u>693,211</u>	<u>189,626</u>	<u>145,492</u>	<u>737,345</u>
Less accumulated depreciation:				
Land improvements	(11,455)	(11,537)	-	(22,992)
Buildings	(694)	(325)	-	(1,019)
Vehicles	(40,892)	-	40,892	-
Equipment	<u>(246,633)</u>	<u>(28,076)</u>	<u>97,000</u>	<u>(177,709)</u>
Total accumulated depreciation	<u>(299,674)</u>	<u>(39,938)</u>	<u>137,892</u>	<u>(201,720)</u>
Total capital assets being depreciated, net of depreciation	<u>393,537</u>	<u>149,688</u>	<u>7,600</u>	<u>535,625</u>
Capital assets, net of depreciation	\$ 602,275	\$ 149,688	\$ 127,295	\$ 624,668

NOTE 5 – DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	<u>\$ 3,276</u>	<u>\$ -</u>

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 - INTERFUND TRANSFERS

For the year ended June 30, 2008, the Village had the following interfund transfers:

		<u>Transfer from:</u>		
	<u>Major Streets</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Transfer to:				
General	\$ -	\$ 4,100	\$ 4,200	\$ 8,300
Local Streets	<u>22,452</u>	<u>-</u>	<u>-</u>	<u>22,452</u>
Total	<u>\$ 22,452</u>	<u>\$ 4,100</u>	<u>\$ 4,200</u>	<u>\$ 30,752</u>

The transfer from the Major Streets Fund to the Local Streets Fund is for the purpose of funding maintenance on local streets, which is not funded by intergovernmental revenues.

The transfers from the Sewer and Water Funds to the General Fund are for the purpose of reimbursing the General Fund for certain administrative expenditures incurred by the General Fund on behalf of the Sewer and Water Funds.

NOTE 7 - LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Village and component unit for the year ending June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
Business-type activities					
Contracts payable- 1.45% to 3.9%, due 9/1/11	<u>\$ 505,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 405,000</u>	<u>\$ 100,000</u>
Component Unit					
Bonds payable-Bank of New York, 4.4% to 5.25%, due 6/1/23	<u>\$ 1,805,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 1,720,000</u>	<u>\$ 90,000</u>
Capital lease—1 st Source Bank, 5.03%, due 9/11/11	<u>-</u>	<u>173,000</u>	<u>(38,158)</u>	<u>134,842</u>	<u>32,414</u>
Total	<u>\$ 1,805,000</u>	<u>\$ 173,000</u>	<u>\$ (123,158)</u>	<u>\$ 1,854,842</u>	<u>\$ 122,414</u>

VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The Downtown Development Authority (DDA) has pledged its tax increment revenues, together with any available general revenue funds of the Authority to pay the \$1,720,000 bonded debt issued to Bank of New York. In addition, the bonds are backed by the full faith and credit of the Village of Birch Run.

During the year ended June 30, 2003, Saginaw County refunded the Birch Run Extension #2 bond issue, which the Village is contractually obligated to reimburse. There was \$925,000 of principal remaining on the refunded sewer contract and the value had been increased to \$935,000 remaining at June 30, 2003. The DDA is reimbursing the Sewer Fund for 71.65% of the principal, interest and fees on the outstanding sewer contract. The remaining 28.35% is being paid by Birch Run Township.

Annual debt service requirements to maturity for general obligation and revenue bonds and notes are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Business-type</u>	<u>Activities</u>	<u>Component</u>	<u>Unit</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 100,000	\$ 12,525	\$ 122,414	\$ 94,529
2010	95,000	9,458	124,083	88,540
2011	100,000	6,090	130,837	82,376
2012	110,000	2,145	132,508	75,781
2013			100,000	70,305
2014-2018	-	-	565,000	269,170
2019-2023	-	-	<u>680,000</u>	<u>110,250</u>
Total	<u>\$ 405,000</u>	<u>\$ 30,218</u>	<u>\$ 1,854,842</u>	<u>\$790,951</u>

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding policy

The Village is required to contribute an amount equal to a percentage of covered payroll which is determined based on union negotiated rates and actuarially determined rates; the current rate ranges from 4.5% to 5.0% of annual covered payroll. The plan also requires a contribution from the employees of 4.1% of gross wages for police, D.P.W. and administrative staff employees.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Annual pension cost

For the year ended June 30, 2008, the Village's annual pension cost of \$29,801 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, and (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Both were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized on a closed basis over a period of 28 years, as of December 31, 2007, the date of the last actuarial valuation.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$ 25,392	100%	\$ -
6/30/07	\$ 28,632	100%	\$ -
6/30/08	\$ 29,801	100%	\$ -

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/05	\$ 400,584	\$ 537,998	\$ 137,414	75%	\$ 623,713	22%
12/31/06	\$ 469,411	\$ 569,167	\$ 99,756	82%	\$ 605,954	16%
12/31/07	\$ 547,615	\$ 642,659	\$ 95,044	85%	\$ 610,614	16%

NOTE 9 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the Village carried commercial insurance to cover all risk of losses. The worker's compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

**VILLAGE OF BIRCH RUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 10 – CONTRACT AND INTERLOCAL AGREEMENT

The Village and the DDA entered into an agreement dated May 1, 1992, whereby the DDA reimburses the Village on an annual basis for certain police and public works costs provided by the Village within the DDA boundaries. For the year ended June 30, 2008, the amount reimbursed by the DDA was \$301,964.

NOTE 11 - BUILDING AND SIMILAR FEES

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Village complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

The Village collects monies for building, electrical, mechanical, plumbing, and planning and zoning permits and fees. The amount received for these permits for the year ended June 30, 2008 was \$38,072. The expenditures incurred related to code enforcement for the year ended June 30, 2008 were \$80,275.

NOTE 12 – CONTINGENCIES/PENDING LITIGATION

The Village is engaged in routine litigation incidental to the conduct of its affairs.

A former employee filed suit against the Village alleging wrongful discharge. The case was originally filed in the Circuit Court, but has been dismissed by way of motion as there is a binding arbitration agreement. The arbitration process is scheduled for November and December of 2008. Management and counsel believe the allegation is without merit and are conducting a vigorous defense. The ultimate outcome is unknown at this time, and no provision for any loss has been recorded in the financial statements.

NOTE 13 – RESTATEMENT OF NET ASSETS

Beginning net assets have been restated downward \$127,295 in the component unit. In prior years, streetscape costs on Beyer Road were booked as construction in progress; however, the component unit does not own the land in which the improvements were made.

REQUIRED SUPPLEMENTAL INFORMATION

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts			Variance Over/(Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 180,834	\$ 180,754	\$ 180,807	\$ 53
Licenses and permits	64,845	64,914	67,268	2,354
Fines and forfeitures	63,181	70,008	74,719	4,711
Intergovernmental revenue	116,057	116,723	117,629	906
Other revenues	157,111	175,520	173,982	(1,538)
Total revenues	582,028	607,919	614,405	6,486
Expenditures				
Governing body	2,586	2,360	1,959	401
Village Clerk/Treasurer	46,204	44,422	46,056	(1,634)
Public safety	453,524	494,646	481,013	13,633
Zoning department	16,703	15,118	14,012	1,106
Building department/Inspector	85,822	85,053	80,275	4,778
Planning commission	4,320	1,600	1,600	-
Zoning board of appeals	520	-	-	-
Department of public works	93,273	103,040	104,503	(1,463)
Sidewalk construction	5,000	2,638	2,638	-
Storm sewer repair/construction	2,000	3,628	1,193	2,435
Street lighting	26,400	21,689	21,198	491
Refuse expenditures	42,692	36,970	41,096	(4,126)
Total expenditures	779,044	811,164	795,543	15,621
Revenues over/(under) expenditures	(197,016)	(203,245)	(181,138)	22,107
Other financing sources (uses)				
Operating transfers in/(out)	207,800	205,282	205,461	179
Net change in fund balances	10,784	2,037	24,323	22,286
Fund balance-beginning of year	591,397	591,397	591,397	-
Fund balance-end of year	\$ 602,181	\$ 593,434	\$ 615,720	\$ 22,286

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 85,939	\$ 95,786	\$ 97,826	\$ 2,040
Interest	9,482	9,684	10,168	484
Miscellaneous	-	353	5,057	4,704
Total revenues	95,421	105,823	113,051	7,228
Expenditures				
Highways and streets	122,182	139,400	135,539	3,861
Revenues over/(under) expenditures	(26,761)	(33,577)	(22,488)	11,089
Other financing sources/(uses)				
Transfers in/(out)	(3,685)	(6,616)	(6,616)	-
Net change in fund balances	(30,446)	(40,193)	(29,104)	11,089
Fund Balance - beginning of year	255,451	255,451	255,451	-
Fund Balance - end of year	<u>\$ 225,005</u>	<u>\$ 215,258</u>	<u>\$ 226,347</u>	<u>\$ 11,089</u>

**VILLAGE OF BIRCH RUN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 22,522	\$ 23,536	\$ 24,083	\$ 547
Interest	4,721	3,867	3,892	25
Miscellaneous	-	353	353	-
Total revenues	27,243	27,756	28,328	572
Expenditures				
Highways and streets	104,886	104,419	97,719	6,700
Revenues over/(under) expenditures	(77,643)	(76,663)	(69,391)	7,272
Other financing sources/(uses)				
Transfers/(out)	27,685	27,675	27,675	-
Net change in fund balances	(49,958)	(48,988)	(41,716)	7,272
Fund Balance - beginning of year	140,671	140,671	140,671	-
Fund Balance - end of year	<u>\$ 90,713</u>	<u>\$ 91,683</u>	<u>\$ 98,955</u>	<u>\$ 7,272</u>

INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Over/(Under)
				Final Budget
REVENUES				
Taxes				
Real property taxes	\$ 131,125	\$ 130,684	\$ 130,222	\$ (462)
Personal property taxes	45,824	45,150	45,150	-
Mobile home taxes	750	750	793	43
Property tax administration fee	3,135	4,170	4,642	472
Total taxes	180,834	180,754	180,807	53
Licenses and permits				
Contractor registration fee	390	510	555	45
Business licenses	6,660	7,220	7,320	100
Residential permits	10,000	5,950	7,211	1,261
Commercial permits	32,807	29,652	30,861	1,209
Rental housing license fees	3,253	5,434	5,434	-
Riser inspection fees	-	400	400	-
Planning commission fees	1,440	720	720	-
Zoning board of appeals fees	495	-	-	-
Miscellaneous revenues-zoning	105	236	125	(111)
Zoning permit fees	9,200	14,792	14,642	(150)
Sign board of appeals fees	495	-	-	-
Total licenses and permits	64,845	64,914	67,268	2,354
Fines and forfeitures				
State grant-police training	1,673	1,400	1,400	-
Charges for police services	27,720	27,720	25,601	(2,119)
Traffic grant reimb.-Saginaw	3,360	1,179	2,260	1,081
Ordinance fines and traffic violations	17,000	26,036	30,414	4,378
Forfeitures	-	129	129	-
Police reports	500	639	644	5
Alarm permits/violations	5,000	4,985	5,055	70
Salvage inspections	-	1,332	1,633	301
Police service revenues	7,928	6,588	7,583	995
Total fines and forfeitures	63,181	70,008	74,719	4,711
Intergovernmental revenue				
State constitutional sales tax	113,286	113,944	114,850	906
State liquor license	2,771	2,779	2,779	-
Total intergovernmental revenue	116,057	116,723	117,629	906
Other revenues				
Refuse revenue	47,734	47,609	47,471	(138)
Equipment rental	87,473	96,924	100,402	3,478
Interest	21,904	24,705	27,222	2,517
Miscellaneous	-	6,282	(1,113)	(7,395)
Total other revenues	157,111	175,520	173,982	(1,538)
Total revenues	532,028	607,919	614,405	6,486
EXPENDITURES				
Governing body				
Salaries	1,428	1,099	1,037	62
Workers' compensation	8	11	7	4
Dues, memberships and subscriptions	150	250	250	-
Community promotions	1,000	1,000	665	335
Total governing body	2,586	2,360	1,959	401

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Village Clerk/Treasurer				
Salaries	23,235	19,820	18,923	897
Fringe benefits	2,219	1,998	1,872	126
Workers' compensation	143	143	60	83
Employer taxes	1,777	1,551	1,435	116
Office supplies	1,000	500	352	148
Postage	150	80	45	35
Dues, memberships and subscriptions	228	266	266	-
Contractual/professional services	3,692	4,181	3,960	221
Legal fees	2,160	4,621	4,621	-
Insurance	5,057	4,887	4,887	-
Telephone	422	377	359	18
Travel and training	400	100	96	4
Mileage	412	250	220	30
Printing and publishing	200	100	78	22
Utilities	3,800	4,570	4,110	460
Miscellaneous	175	61	3,855	(3,794)
Furniture, fixtures and equipment	1,134	917	917	-
Total village clerk/treasurer	46,204	44,422	46,056	(1,634)
Public safety				
Salaries	293,290	293,290	285,114	8,176
Fringe benefits	49,293	50,280	49,743	537
Workers' compensation	5,817	5,817	4,253	1,564
Employer taxes	21,859	21,859	21,393	466
Office supplies	1,200	1,350	1,351	(1)
Postage	350	300	240	60
Dues, memberships and subscriptions	349	349	297	52
Contractual/professional services	10,697	10,994	10,796	198
Legal fees	8,280	15,802	15,102	700
Insurance	13,019	12,581	12,581	-
Uniforms and accessories	2,000	1,365	1,854	(489)
Uniform cleaning	800	993	831	162
Repairs and maintenance	250	303	302	1
Telephone	2,400	1,387	1,279	108
Travel and training	4,688	3,250	2,592	658
Mileage	873	557	372	185
Forfeiture expenses	-	4,392	4,392	-
Salvage inspections	-	1,112	3,224	(2,112)
Printing and publishing	350	100	72	28
Reimbursable expenses	300	300	(15)	315
Utilities	3,800	4,366	4,104	262
Bad debts	-	70	70	-
Police services	250	142	142	-
Furniture, fixtures and equipment	2,569	2,782	1,846	936
Vehicle expenses	9,040	11,852	10,624	1,228
Vehicle replacement	-	32,000	31,965	35
Fuel expenses	22,050	17,053	16,489	564
Total public safety	453,524	494,646	481,013	13,633

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Zoning department				
Salaries	6,528	6,528	6,265	263
Fringe benefits	3,439	3,439	2,758	681
Workers' compensation	78	78	58	20
Employer taxes	499	499	443	56
Office supplies	100	58	56	2
Postage	300	200	97	103
Dues, memberships and subscriptions	14	12	12	-
Contractual/professional services	1,913	1,000	1,376	(376)
Legal fees	216	216	169	47
Insurance	1,251	1,209	1,209	-
Telephone	66	66	57	9
Travel and training	1,200	150	77	73
Mileage	50	50	34	16
Printing and publishing	720	1,344	1,232	112
Furniture, fixtures and equipment	229	169	169	-
Resource material	100	100	-	100
Total zoning department	16,703	15,118	14,012	1,106
Building department/inspector				
Salaries	39,498	39,498	38,357	1,141
Fringe benefits	20,867	21,644	20,625	1,019
Workers' compensation	369	369	270	99
Employer taxes	3,022	3,022	2,598	424
Office supplies	600	100	45	55
Postage	200	100	117	(17)
Dues, memberships and subscriptions	55	49	49	-
Contractual/professional services	14,384	14,384	12,515	1,869
Legal fees	864	864	657	207
Insurance	1,791	1,731	1,731	-
Telephone	830	830	826	4
Travel and training	450	250	206	44
Mileage	516	516	525	(9)
Printing and publishing	432	200	160	40
Reimbursable expenses	-	-	-	-
Miscellaneous expenses	50	30	128	(98)
Furniture, fixtures and equipment	1,594	1,018	1,018	-
Resource material	300	448	448	-
Total building department/inspector	85,822	85,053	80,275	4,778
Planning commission				
Salaries	4,320	1,600	1,600	-
Total planning commission	4,320	1,600	1,600	-
Zoning board of appeals				
Salaries	520	-	-	-
Total zoning board of appeals	520	-	-	-

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance Over/(Under)
	Original	Final	Actual	Final Budget
Department of public works				
Salaries	40,676	44,110	44,756	(646)
Fringe benefits	2,628	2,712	2,695	17
Workers' compensation	1,195	1,195	875	320
Employer taxes	3,069	3,368	3,417	(49)
Office supplies	800	300	255	45
Postage	50	50	28	22
Building maintenance	2,500	2,500	1,913	587
Supplies and materials	2,201	2,529	2,390	139
Salt purchase	-	881	881	-
Dues memberships and subscriptions	69	62	62	-
Contractual/professional services	2,701	2,701	2,621	80
Legal fees	-	9	9	-
Insurance	6,204	5,995	5,995	-
Repairs and maintenance	2,500	3,849	3,154	695
Telephone	603	603	485	118
Travel and training	100	100	100	-
Printing and publishing	50	106	106	-
Reimbursable expenses	508	472	20	452
Utilities	3,800	5,996	5,598	398
Miscellaneous expenses	150	125	125	-
Furniture, fixtures and equipment	869	307	713	(406)
Vehicle expenses	7,000	12,629	11,999	630
Fuel expense	15,600	12,441	16,306	(3,865)
Total department of public works	93,273	103,040	104,503	(1,463)
Sidewalk construction				
Sidewalk construction	5,000	2,638	2,638	-
Total sidewalk construction	5,000	2,638	2,638	-
Storm sewer repair/construction				
Storm sewer repair/construction	2,000	3,628	1,193	2,435
Total storm sewer repair/construction	2,000	3,628	1,193	2,435
Street lighting				
Street lights	26,400	21,689	21,198	491
Total street lighting	26,400	21,689	21,198	491
Refuse expenditures				
Refuse expenses	42,692	36,970	41,096	(4,126)
Total refuse expenditures	42,692	36,970	41,096	(4,126)
Total expenditures	779,044	811,164	795,543	15,621
Revenues over/(under) expenditures	(197,016)	(203,245)	(181,138)	22,107
Other financing sources/(uses)				
Operating transfers in/(out)				
Transfer in-DDA	199,500	196,982	197,161	179
Transfer in-sewer	4,100	4,100	4,100	-
Transfer in-water	4,200	4,200	4,200	-
Total operating transfers	207,800	205,282	205,461	179
Total other financing sources/(uses)	207,800	205,282	205,461	179
Net change in fund balances	10,784	2,037	24,323	22,286
Fund balance-beginning of year	591,397	591,397	591,397	-
Fund balance-end of year	\$ 602,181	\$ 593,434	\$ 615,720	\$ 22,286

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Revenues				
Act 51 funds	\$ 85,939	\$ 89,808	\$ 91,848	\$ 2,040
Metro act revenue	-	5,978	5,978	-
Interest	9,482	9,684	10,168	484
Miscellaneous	-	353	5,057	4,704
Total revenues	95,421	105,823	113,051	7,228
Expenditures				
Routine Maintenance				
Salaries	20,952	26,048	25,729	319
Fringe benefits	1,353	1,849	1,513	136
Workers' compensation	1,045	1,045	764	281
Employer taxes	1,584	2,094	1,964	130
Office supplies	100	50	24	26
Street sign expenses	400	400	321	79
Maintenance expenses	49,027	51,774	50,417	1,357
Telephone	33	-	-	-
Employee reimbursement	508	(213)	(215)	2
Maintenance and equipment rental	21,775	21,775	19,345	2,430
Bad debt expense	-	-	1,000	(1,000)
Total routine maintenance	96,777	104,622	100,862	3,760
Snow and ice control				
Salaries	5,289	8,462	8,462	-
Fringe benefits	333	466	456	10
Workers' compensation	190	190	139	51
Employer taxes	421	645	646	(1)
Snow and ice control expenses	5,707	3,879	3,879	-
Equipment rental	5,509	15,878	15,878	-
Total snow and ice control	17,449	29,520	29,460	60
Administration and other				
Traffic services	240	295	402	(107)
Contractual/professional services	6,197	4,499	4,351	148
Legal fees	1,440	388	388	-
Insurance	79	76	76	-
Total administration and other	7,956	5,258	5,217	41
Total expenditures	122,182	139,400	135,539	3,861
Revenues over/(under) expenditures	(26,761)	(33,577)	(22,488)	11,089
Other financing sources/(uses)				
Operating transfers				
Transfers in	17,800	15,836	15,836	-
Transfers out	(21,485)	(22,452)	(22,452)	-
Total operating transfers	(3,685)	(6,616)	(6,616)	-
Net change in fund balances	(30,446)	(40,193)	(29,104)	11,089
Fund balance-beginning of year	255,451	255,451	255,451	-
Fund balance-end of year	\$ 225,005	\$ 215,258	\$ 226,347	\$ 11,089

VILLAGE OF BIRCH RUN
OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE DETAIL-LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Act 51 funds	\$ 22,522	\$ 23,536	\$ 24,083	\$ 547
Interest	4,721	3,867	3,892	25
Miscellaneous	-	353	353	-
Total revenues	27,243	27,756	28,328	572
Expenditures				
Routine maintenance				
Salaries	16,821	18,180	18,067	113
Fringe benefits	1,114	1,231	1,138	93
Workers' compensation	855	855	625	230
Employer taxes	1,306	1,447	1,382	65
Office supplies	100	50	7	43
Maintenance expenses	50,430	50,430	46,435	3,995
Telephone	33	-	-	-
Employee reimbursement	508	219	217	2
Equipment usage maintenance	16,625	10,130	8,016	2,114
Total routine maintenance	87,792	82,542	75,887	6,655
Snow and ice control				
Salaries	4,436	6,599	6,599	-
Fringe benefits	273	404	398	6
Workers' compensation	143	143	104	39
Employer taxes	352	504	504	-
Snow and ice control expenses	3,966	2,920	2,920	-
Equipment rental	4,738	9,564	9,564	-
Total snow and ice control	13,908	20,134	20,089	45
Administration and other				
Contractual/professional services	1,667	1,667	1,667	-
Legal fees	1,440	-	-	-
Insurance	79	76	76	-
Total administration and other	3,186	1,743	1,743	-
Total expenditures	104,886	104,419	97,719	6,700
Revenues over/(under) expenditures	(77,643)	(76,663)	(69,391)	7,272
Other financing sources/(uses)				
Transfer in	27,685	27,675	27,675	-
Net change in fund balances	(49,958)	(48,988)	(41,716)	7,272
Fund balance-beginning of year	140,671	140,671	140,671	-
Fund balance-end of year	\$ 90,713	\$ 91,683	\$ 98,955	\$ 7,272

COMPONENT UNIT

VILLAGE OF BIRCH RUN
COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2008

	DOWNTOWN DEVELOPMENT AUTHORITY	ADJUSTMENTS	STATEMENT OF NET ASSETS
Assets			
Cash and cash equivalents	\$ 499,572	\$ -	\$ 499,572
Taxes receivable	17,375	-	17,375
Accounts receivable	338	-	338
Interest receivable	2,830	-	2,830
Nondepreciable capital assets	-	89,043	89,043
Depreciable capital assets, net	-	535,625	535,625
Total assets	<u>\$ 520,115</u>	624,668	1,144,783
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 471	-	471
Accrued expenses	3,742	-	3,742
Accrued interest	-	12,572	12,572
Long-term debt:			
Due within one year	-	122,414	122,414
Due in more than one year	-	1,732,428	1,732,428
Total liabilities	4,213	1,867,414	1,871,627
Fund balances			
Unreserved	515,902	(515,902)	-
Total fund balances	515,902	(515,902)	-
Total liabilities and fund balances	<u>\$ 520,115</u>		
Net assets			
Invested in capital assets, net of related debt		(1,242,746)	(1,242,746)
Unrestricted		515,902	515,902
Total net assets (deficit)		<u>\$ (726,844)</u>	<u>\$ (726,844)</u>

VILLAGE OF BIRCH RUN
COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
Revenues			
Taxes	\$ 773,993	\$ -	\$ 773,993
Interest	30,593	-	30,593
Miscellaneous	<u>10,936</u>	<u>-</u>	<u>10,936</u>
Total revenues	815,522	-	815,522
Expenditures/Expenses			
Salaries and wages	66,447	-	66,447
Payroll taxes and fringe benefits	17,501	-	17,501
Office supplies	642	-	642
Dues, memberships and subscriptions	1,844	-	1,844
Professional services	31,532	-	31,532
Insurance	2,494	-	2,494
Travel and training	461	-	461
Printing and publishing	237	-	237
Utilities	5,273	-	5,273
Holiday decorations expense	475	-	475
Maintenance expense	112,063	-	112,063
Hydrant rental	2,025	-	2,025
Miscellaneous	757	-	757
Construction projects	354,196		354,196
Furniture, fixtures and equipment	178,337	(174,626)	3,711
Fees	300		300
Depreciation	-	39,938	39,938
Debt service:			
Principal	85,000	(85,000)	-
Interest expense	<u>92,780</u>	<u>4,838</u>	<u>97,618</u>
Total expenditures/expenses	<u>952,364</u>	<u>(214,850)</u>	<u>737,514</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(136,842)	214,850	78,008
Other financing sources (uses)			
Operating transfers in (out)	(301,964)	-	(301,964)
Equipment financing	134,842	(134,842)	-
Gain on asset trade-in	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total other financing sources (uses)	(167,122)	(119,842)	(286,964)
Net change in fund balance/net assets	(303,964)	95,008	(208,956)
Fund balance/net assets (deficit), beginning of year-restated	<u>819,866</u>	<u>(1,337,754)</u>	<u>(517,888)</u>
Fund balance/net assets (deficit), end of year	\$ <u><u>515,902</u></u>	\$ <u><u>(1,242,746)</u></u>	\$ <u><u>(726,844)</u></u>

INTERNAL CONTROL AND COMPLIANCE



Certified Public Accountants
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 22, 2008

Village Council
Village of Birch Run
Birch Run, Michigan

We have audited the financial statements of the governmental activities the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Village of Birch Run as of and for the year ended June 30, 2008, which collectively comprise The Village of Birch Run's basic financial statements and have issued our report dated September 22, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Village of Birch Run's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Village of Birch Run's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Village of Birch Run's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Village of Birch Run's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Village of Birch Run's financial statements that is more than inconsequential will not be prevented or detected by the Village of Birch Run's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Village of Birch Run's internal control.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether The Village of Birch Run's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted other matters that we reported to the management of The Village of Birch Run in a separate letter dated November 24, 2008.

This report is intended for the information and use of the management and of the members of the board of The Village of Birch Run and not intended to be and should not be used by anyone other than these specified parties .


TAYLOR & MORGAN, P.C.
Certified Public Accountants



Certified Public Accountants

November 24, 2008

To the Village Council of
Village of Birch Run

We have audited the basic financial statements of Village of Birch Run (the "Village") for the year ended June 30, 2008, and have issued our report thereon dated September 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under Generally Accepted Audited Standards

As stated in our engagement letter dated May 15, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed the following audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Village's financial reporting process.

1. Recording asset additions and disposals in the proprietary funds
2. Recording current year depreciation expense in the proprietary funds

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as the Village's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Management Comments and Recommendations


Internal Controls – Segregation of Duties

The Village, due to its size and staffing, is limited in implementing the controls provided with segregation of duties. Although a full and complete segregation of duties would not be cost-effective, there are procedures that have been implemented to help improve internal controls. One such procedure is having the Village Manager review and sign off on all bank reconciliations and monthly bank statements, including cancelled checks. We recommend this procedure be continued, and we also recommend the Village Manager review and sign off on all journal entries.

Internal Controls – Personnel files

During our payroll testing it was noted that many employee I-9 forms were incomplete. We recommend that personnel files be updated to ensure that all employment forms are complete and included therein.

This information is intended solely for the use of the Village Council of the Village of Birch Run and its management and should not be used for any other purpose.


Taylor & Morgan, P.C., CPA's
Flint, MI